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TREASURY FOR BRYAN BALIN AND FRANCISCO PARODI

E.O. 12958: N/A  
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SUBJECT: JONES APPAREL: EGYPT'S QIZS ARE GOOD FOR BUSINESS

11. (SBU) KEY POINTS

-- Compliance Officers from Jones Apparel Group told us that labor conditions in the factories of their Egyptian suppliers are generally good.

-- Jones Apparel has not seen evidence of worker mistreatment in QIZ factories.

-- As a result of the QIZ and proximity to U.S. markets, Egypt continues to gain market share over its Southeast Asian rivals.

-- There are some signs of a slow recovery in apparel demand.

12. (SBU) As part of Post's program of monitoring labor conditions in Egypt's Qualifying Industrial Zones (QIZ), we met with the Kesavi Murali, the Senior Compliance Specialist in the Middle East for Jones Apparel Group and Mohamed Husseiny, the company's representative in Egypt. Murali told us that his company remains very focused on compliance issues and labor conditions in the wake of a 2006 labor abuse scandal in the QIZs in Jordan. He was clear that there were no signs that Egyptian QIZs had any major labor issues.

13. (SBU) Jones Apparel has 16 factories in Egypt, most of which are located in the Port Said free zone. These factories produce women's clothes under the Jones New York, 9 West, and Anne Klein labels. Murali told us that Jones Apparel produces 60% of its denim products in the Middle East, half in Jordan and half in Egypt. All of Jones Apparel's production in Egypt takes place in the QIZs, and Murali told us he expected that Jones would buy between \$90-\$100 million in product from Egyptian factories this year. He added that the company had added two new supply factories in Egypt in 12009.

14. (SBU) Over the past year, Jones has increased its presence in Egypt and now has a full time production team based in Egypt. According to Murali, they visit each of the factories they work with once per month. Their strategy, Murali told us, was to ensure that they were the largest customer of each of the factories they work with in order to guarantee what they felt was a proper level of attention to their issues.

15. (SBU) Murali told us that the apparel industry in general had experienced a slowdown earlier this year, but that he saw orders picking up. In addition to favorable customs treatment under the QIZ, he said production in Egypt provides cost advantages and efficiencies in production lead time since Egypt is located closer to the U.S. than most other suppliers. While other producers such as Bangladesh, Madagascar and Sri Lanka have lost market share, Egypt has

gained market share. He told us Egypt was a better producer than countries who use migrant labor, though Egypt does suffer from high worker turnover which damages operational efficiency. He said that from his standpoint, there were no labor issues with local labor. He said that the main issues in Egyptian factories are qualitative management issues and a lack of health and safety awareness.

¶6. (SBU) When asked about migrant workers, Murali told us that a few factories that employed Bangladeshi workers, but that the number of workers was not substantial, and always within legal limits. He also said that he had heard that the GOE was imposing an "unofficial ban" on new work permits for Bangladeshi migrant workers. Murali told us that contrary to some media reports he had seen no evidence and any factories relocating from Jordan to Egypt.

¶7. (SBU) Comment: Jones Apparel Group has been very active in monitoring conditions in QIZs and we feel that the evaluation of their factories they work with is reliable and tracks with what we have seen in our own factory visits. We have not been able to independently verify Murali's claim with respect to the GOE unofficially tightening up on foreign workers, though it makes sense that the GOE would be disinclined to import foreign workers when the country has high levels of domestic unemployment. As with many we've spoken to, Murali was unaware of the new QIZ designations in Upper Egypt since the GOE has yet to publicize the expansion. Of note also is the somewhat upbeat analysis of market conditions, which is the first sign of optimism that we've seen. This may be evidence of a coming recovery in the apparel sector or simply an indication of the lower elasticity of demand for women's apparel than for men's.

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